

ILLINOIS COMMERCE COMMISSION

DOCKET NO. _____

DIRECT TESTIMONY

OF

KEVIN L. REDHAGE

ON

BEHALF OF

UNION ELECTRIC COMPANY

(d/b/a AmerenUE)

St. Louis, Missouri

October 22, 2003

1 **DIRECT TESTIMONY**

2 **OF**

3 **KEVIN L. REDHAGE**

4 **Q. Please state your name, address, and occupation.**

5 A. My name is Kevin L. Redhage, and I reside in Chesterfield, Missouri. I am a Finance
6 Professional in the Financial Planning and Investments Department at Ameren Services
7 Company.

8 **Q. How long have you held this position?**

9 A. I have held this position since February 1992.

10 **Q. What are your principal duties?**

11 A. My principal duties include the following: monitoring investment activity and coordination of
12 trust and regulatory issues concerning the Company's Nuclear Decommissioning Trust Fund;
13 reviewing capital expenditure justifications to assure that they are conducted in accordance with
14 Company policies; and developing economic models for the performance of financial analyses.
15 I also perform other projects as assigned, relative to the area of financial planning, on a case-
16 by-case basis.

17 **Q. Please describe your educational background.**

18 A. I graduated with a Bachelor of Science degree in Civil Engineering from the University of
19 Missouri - Rolla in 1979. In 1991, I received a Masters degree in Business Administration
20 (MBA) from Webster University in St. Louis, Missouri, with an emphasis in Finance.

21 **Q. What is your work experience at Union Electric Company?**

22 A. I was employed by Union Electric Company in May 1981 as an Assistant Engineer in the
23 Nuclear Construction Department at the Company's Callaway Plant. While serving in this
24 department, I was promoted from Assistant Engineer to Engineer. In these positions, I
25 performed various construction management activities, both technical and administrative in
26 nature.

27 In April 1986, following the completion of Callaway construction, I transferred to the
28 newly formed Quality Services Department, located in the Company's St. Louis headquarters.

29 My principal responsibility in this position was the review of Company suppliers' quality
30 assurance ("QA") programs, and the on-site verification of the implementation of the QA
31 programs at the suppliers' facilities. In this position, I also was involved in the development of
32 internal Company QA programs.

33 After I attained my MBA in Finance, I was assigned to the Financial Planning and
34 Investments Department as a Financial Specialist. This title was later modified to "Finance
35 Professional". This is the position I currently hold with the principal duties as described earlier.

36 **Q. Are you familiar with the subject matter of this proceeding?**

37 A. Yes. The Company is requesting the following approvals from and providing the following
38 notification to the Illinois Commerce Commission ("ICC"):

39 1) Request for approval of the "Third Amended and Restated Tax Qualified Decommissioning
40 Trust" agreement;

41 2) Request for approval of the "Third Amended and Restated Non-Tax Qualified
42 Decommissioning Trust" agreement;

- 43 3) Request for approval of changes to the “Investment Guidelines for the Callaway Plant Tax
44 Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective
45 January 1, 2001”; and,
46 4) Notification of a change in the trust fund’s equity investment manager as a result of recent
47 mergers in the banking industry.

48 **Q. Are you sponsoring any schedules?**

49 A. Yes. I am sponsoring Schedule Numbers 1 through 10.

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REQUEST FOR APPROVAL OF THE
“THIRD AMENDED AND RESTATED TAX QUALIFIED
DECOMMISSIONING TRUST” AGREEMENT

54 **Q. What document currently governs the tax qualified decommissioning trust?**

55 A. The “Second Amended and Restated Tax Qualified Decommissioning Trust” agreement, as
56 amended, is presently in effect. A copy of this document, with its associated amendments,
57 is included in Schedule 1.

58 **Q. Has the Company previously sought ICC approval of a “Third Amended and**
59 **Restated Tax Qualified Decommissioning Trust” agreement?**

60 A. Yes. On October 13, 2000, the Company filed an application with the ICC (please refer to
61 Docket No. 00-0664) seeking, among other things, approval to replace Bankers Trust
62 Company with The Bank of New York (“BNY”) as trustee of its tax qualified and non-tax
63 qualified trust funds (the “trust funds”), approval of a “Third Amended and Restated Tax
64 Qualified Decommissioning Trust” agreement (which made certain revisions to the “Second
65 Amended and Restated Tax Qualified Decommissioning Trust” agreement and incorporated

its amendments), approval of a “Second Amended and Restated Non-Tax Qualified Decommissioning Trust” agreement and approval of changes to the “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective January 1, 1998”. The Company concurrently filed a similar application with the Missouri Public Service Commission (“MPSC”) requesting approval of the foregoing items required under their jurisdiction (please refer to MPSC Case No. EO-2001-245).

Q. What was the outcome of these requests?

A. On December 6, 2000, the ICC issued its “Order” approving the changes requested by the Company with no exceptions. But, on December 14, 2000, the MPSC issued its “Order” which partially approved the changes requested by the Company. Specifically, the MPSC Order approved the Company’s request for the changes in trustee and investment manager, and approved the proposed “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement and its associated fee schedule (with certain exceptions) and the proposed “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective January 1, 2001” (with one exception). In addition, the MPSC Order indicated that the foregoing exceptions would be “taken under advisement” until the resolution of the Company’s Illinois property transfer case (MPSC Case No. EM-2001-233) was resolved. No MPSC action was required regarding the proposed changes to the non-tax qualified trust agreement as it was established solely to comply with Illinois law.

For the Company and BNY to execute the “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement, approval by both the MPSC and by the ICC was required. Since the ICC approved the document as-filed but the MPSC approved it with

88 exceptions, the Company and BNY were unable to execute the document. As the ICC Order
89 made its approval contingent on similar approval by the MPSC, the denial of unconditional
90 approval by the MPSC made the proposed “Third Amended and Restated Tax Qualified
91 Decommissioning Trust” agreement invalid.

92 In order to proceed with the change in trustee, BNY agreed to be appointed as
93 “successor trustee” under the existing “Second Amended and Restated Tax Qualified
94 Decommissioning Trust” agreement provided the Company agreed to pursue changes to the
95 agreement that were addressed in its earlier filing. As both the ICC and MPSC had approved
96 the change in trustee and the trustee’s fee schedule, and as the existing “Second Amended and
97 Restated Tax Qualified Decommissioning Trust” agreement had been previously approved by
98 both Commissions (MPSC Case No. EO-93-308 and ICC Docket No. 93-0300), the
99 appointment of BNY as successor trustee under the terms of that trust agreement was possible.

100 Since the investment guidelines are written in a manner so as to be segregated on a
101 jurisdictional basis and the ICC approved the revisions applicable to the Illinois jurisdiction;
102 and, as the exception contained in the MPSC Order only applied to the Missouri jurisdiction,
103 the Company was able to implement the “Investment Guidelines for the Callaway Plant Tax
104 Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective January
105 1, 2001” with the one area noted as an “exception” by the MPSC Order removed for the
106 Missouri jurisdictional section.

107 The appointment of BNY as successor trustee and fixed income investment manager
108 was made and subsequently accepted, effective as of January 1, 2001. As a condition of the
109 appointment, the Company committed to BNY that it would pursue a resolution to the sections

of the proposed “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement that were rejected by the MPSC such that this document could be implemented.

Q. Have any other events occurred since the issuance of the ICC and MPSC “Orders” in Docket No. 00-0664 and Case No. EO-2001-245, respectively, that necessitate changes to the “Second Amended and Restated Tax Qualified Decommissioning Trust” agreement?

A. Yes. On August 10, 1999, the U. S. Nuclear Regulatory Commission (“NRC”) directed the NRC staff to initiate a rulemaking to require that decommissioning trust agreements be in a form acceptable to the NRC in order to increase assurance that an adequate amount of decommissioning funds would be available for their intended purpose. As a result of this effort, the NRC published a proposed rule for Decommissioning Trust Provisions in the Federal Register on May 30, 2001 (66 FR 29244). Following the receipt and incorporation of comments, the final rule for Decommissioning Trust Provisions was published in the Federal Register on December 24, 2002 (67 FR 78332). The final rule modified the Code of Federal Regulations (“CFR”) by revising paragraphs 10 CFR 50.75(e)(1)(i) and (ii) and adding a new paragraph, 10 CFR 50.75(h). For licensees that are “electric utilities” (such as the Company), as defined by 10 CFR 50.2, the CFR revision basically requires the trust agreement to contain provisions for notification to the NRC prior to disbursements being made from the decommissioning trust fund.

A copy of the Federal Register section (67 FR 78332) containing the final rule for Decommissioning Trust Provisions and the CFR revisions is included as Schedule 2.

132 **Q. Has the Company’s “Illinois Property Transfer Case” (Case No. EM-2001-233) been**
133 **resolved, such that the “exceptions” to the approval of the trust agreement and**
134 **investment guidelines stated in Case No. EO-2001-245 can now be addressed and**
135 **reconciled?**

136 A. Yes. The MPSC granted the Company’s request to withdraw its application and closed Case
137 No. EM-2001-233 as of May 14, 2001. It is no longer an open issue.

138 **Q. What action has the Company taken to resolve the MPSC’s concerns with the**
139 **originally proposed “Third Amended and Restated Tax Qualified Decommissioning**
140 **Trust” agreement?**

141 A. The Company met with the MPSC Staff and the Office of the Public Counsel (“OPC”) and
142 discussed the basis and reasoning behind the changes that had been proposed to the “Second
143 Amended and Restated Tax Qualified Decommissioning Trust” agreement. Based on these
144 discussions, revised wording was developed to address the areas which had caused concerns.

145 **A. Has the Company prepared a new “Third Amended and Restated Tax Qualified**
146 **Decommissioning Trust” agreement incorporating the revised language that resulted**
147 **from the foregoing discussions with the MPSC and OPC Staff and as a result of the**
148 **above “final rule” for Decommissioning Trust Provisions?**

149 A. Yes. A copy of the currently proposed “Third Amended and Restated Tax Qualified
150 Decommissioning Trust” agreement is contained in Schedule 3.

151 **Q. Has an annotated copy of the proposed “Third Amended and Restated Tax Qualified**
152 **Decommissioning Trust” agreement, showing the wording that has been deleted and**

153 **added relative to the “Second Amended and Restated Tax Qualified Decommissioning**
154 **Trust” agreement, been prepared?**

155 A. Yes. Schedule 4 contains such a “comparative” document. “Strike-outs” illustrate text
156 contained in the “Second Amended and Restated Tax Qualified Decommissioning Trust”
157 agreement that is being eliminated in the proposed “Third Amended and Restated Tax Qualified
158 Decommissioning Trust” agreement. Shaded areas illustrate text that is not in the “Second
159 Amended and Restated Tax Qualified Decommissioning Trust” agreement being added to the
160 proposed “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement.

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162 **Q. Please discuss the exceptions and concerns noted by the MPSC in its Order in Case**
163 **No. EO-2001-245, and describe how they have been resolved in the modified “Third**
164 **Amended and Restated Tax Qualified Decommissioning Trust” agreement contained**
165 **in Schedule 3.**

166 A. The first exception involved a revision that was made to Article II, Section 2.01 of the “Second
167 Amended and Restated Tax Qualified Decommissioning Trust” agreement. In preparing the
168 proposed “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement
169 presented in Case No. EO-2001-245, this section was revised as follows (underlined words
170 were added):

171 “Selection of the investment media for the investment and reinvestment of the
172 principal and income of the Trust Fund shall be in the sole discretion of the
173 Trustee, except for any portion of the Trust Fund that may be subject to the
174 instructions of the Company or of an additional investment advisor; provided,
175 however, that investments shall be so diversified as to minimize the risk of large
176 losses unless under the circumstances it is clearly prudent not to do so; and
177 further provided that on the written request of the Company to retain cash, the

Trustee shall retain so much cash as shall be specified in such request and shall be under no obligation to invest the same as herein provided, and also that the Trustee in its discretion may retain cash temporarily awaiting investment.”

The OPC had concerns with the proposed change as they felt the Company may be attempting to interject itself into the management of the fund’s investments on a routine, day-to-day basis. While one could construe this from the added trust agreement language, this was never the Company’s intent. The Company added this wording at the request of the proposed trustee (BNY). The intent of the trust agreement is for BNY to act as custodian of the fund’s assets; not as an investment manager. However, the trust agreement must contain some consideration as to the responsibility for investment management in the event that an acting investment manager would suddenly resign or otherwise become non-viable. Without the addition included in the proposed revision, this responsibility would fall solely on the trustee.

BNY desires to take investment direction from the Company up until the time that a new investment manager has been put into place, evidenced by an executed investment management agreement. The Company has no intent of directing the specific, day-to-day investing of the fund’s assets; but, it should have the ability to take interim action in the event that an acting investment manager becomes unable or unwilling to perform its duties.

In addition, the Company feels very strongly that it is within its fiduciary responsibility to establish and implement general, overall investment policies and practices which investment managers (selected by the Company and approved by the MPSC) will carry out in their managing of the fund’s assets. In fact, the Company believes that it would be imprudent for it not to provide this broad, general oversight and administrative management of the trust fund.

In order to alleviate the concerns of the MPSC and OPC Staff and to define the parameters of the Company's responsibility for developing and implementing overall investment management policies and practices, several changes and additions were made to Article II. The "Third Amended and Restated Tax Qualified Decommissioning Trust" agreement presented in Schedule 3 includes the changes made to Article II addressing these issues. Schedule 4 contains a comparative version of the "Third Amended and Restated Tax Qualified Decommissioning Trust" agreement relative to the "Second Amended and Restated Tax Qualified Decommissioning Trust" agreement, currently in effect, with additions identified by shading and deletions identified by strike-out lines.

The second exception involved the elimination of a sentence in Article I, Section 1.01 of the "Second Amended and Restated Tax Qualified Decommissioning Trust" agreement. The sentence being eliminated read as follows:

"The anticipated decommissioning costs and expenses shall include all reasonable costs and expenses incurred in connection with the entombment, decontamination, dismantlement, removal and disposal of the structures, systems and components of the Callaway Plant at the time of decommissioning, including all expenses to be incurred in connection with the preparation for decommissioning, such as engineering and other planning expenses, and to be incurred after the actual decommissioning occurs, such as physical security and radiation monitoring expenses, less proceeds of insurance, salvage or resale of machinery, construction equipment or apparatus the cost of which was charged as a decommissioning expense."

The Company proposed eliminating this sentence simply as an effort to "streamline" the wording of the trust agreement. The foregoing sentence defines decommissioning costs and expenses, and replicates the definition contained in Missouri statutes. Since the proposed trust agreement contains a section requiring it to adhere to all applicable state laws, the Company

229 felt that this sentence was redundant and could be removed without affecting the intent of the
230 document.

231 OPC expressed concern with the removal of this sentence. Given that the Company's
232 only intent was to remove redundancies and to streamline the document, the simplest solution
233 was to reinsert the previously deleted sentence in the currently proposed version of the "Third
234 Amended and Restated Tax Qualified Decommissioning Trust" agreement.

235 The final area of concern was a change made to Article III, Section 3.05 of the
236 "Second Amended and Restated Tax Qualified Decommissioning Trust" agreement, as follows
237 (added wording is underlined, deleted wording is stricken out):

238 "3.05 In the event the Company sells or otherwise disposes of its ownership
239 interest, or any part thereof, in the Callaway Plant, the funds of the Trust shall
240 be distributed ~~to the Company to the extent of the reductions in its liability for~~
241 ~~future decommissioning after taking into account the liabilities of the Company~~
242 ~~for future decommissioning of the Callaway Plant and the liabilities that have~~
243 ~~been assumed by another entity~~ in the manner prescribed by written instruction
244 from the Company delivered to the Trustee."

246
247 The Company desired this change to avoid being forced by the terms of the trust
248 agreement to distribute the funds in the trust should the Company ever "dispose of its interest"
249 in the Callaway plant by transferring it to an operating subsidiary. In such an event, it would
250 most likely be desirable for the trust fund to remain in place and continue to be funded, in a
251 manner determined at the time of the transfer. Since the terms of the trust agreement require
252 the Company to abide by any Orders issued by any applicable regulatory bodies, and since
253 such regulatory bodies would almost certainly stipulate the handling of the decommissioning
254 trust fund in the event of such a transfer, it seemed reasonable to the Company to remove the

specific wording from the trust agreement and replace it with the more general language that could apply to any circumstances that may be encountered upon disposition of the plant.

OPC expressed concern with this change, and again felt that it could be problematic given the restructuring taking place in the utility industry. After meeting with the MPSC Staff and the OPC, a modification was made which was acceptable to all of the involved parties.

The “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement presented in Schedule 3 includes the changes made to paragraph 3.05. Again, the comparative version of the “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement relative to the “Second Amended and Restated Tax Qualified Decommissioning Trust” agreement, presented in Schedule 4, illustrates the revisions with additions identified by shading and deletions identified by strike-out lines.

Q. What sections of the “Second Amended and Restated Tax Qualified Decommissioning Trust” agreement were revised as a result of the NRC’s final rule for Decommissioning Trust Provisions?

A. Paragraphs 3.02 and 3.03 in the “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement, presented in Schedule 3, contain the provisions necessary to comply with the NRC final rule for Decommissioning Trust Provisions. Again, Schedule 4 contains a comparative version of the “Third Amended and Restated Tax Qualified Decommissioning Trust” agreement relative to the “Second Amended and Restated Tax Qualified Decommissioning Trust” agreement, currently in effect, with additions identified by shading and deletions identified by strike-out lines.

276 **Q. Are there any other parts of the “Third Amended and Restated Tax Qualified**
277 **Decommissioning Trust” agreement presented in Schedule 3 that are different than**
278 **the “Second Amended and Restated Tax Qualified Decommissioning Trust”**
279 **agreement currently in effect?**

280 A. Yes. These other changes were also presented as part of the proposed “Third Amended and
281 Restated Tax Qualified Decommissioning Trust” agreement presented in MPSC Case No. EO-
282 2001-245 and ICC Docket No. 00-0664. To the best of the Company’s knowledge, no
283 exception was taken to these other changes by the ICC, the MPSC, nor the OPC; nor were
284 they disputed in the ICC nor in the MPSC Orders in that case. The other changes fall generally
285 into two categories: those changes to “clean-up” redundant, outdated or vague language in the
286 agreement or those changes of a “legal” nature requested by BNY in order to enter into the
287 agreement.

288 **Q. Are any trustee fee changes associated with the trust agreement changes requested**
289 **by this filing?**

290 A. No. The “Schedule of Trustee Fees” included as Attachment 1 to the “Third Amended and
291 Restated Tax Qualified Decommissioning Trust” agreement that were approved by the ICC in
292 Docket No. 00-0664 will remain in effect until at least January 1, 2004.

293 **Q. Are any other regulatory commission approvals required for this trust agreement**
294 **revision?**

295 A. Yes. The Company must also obtain the approval of the Missouri Public Service Commission.
296 For that reason, it is requested that the ICC make its approval of the proposed “Third

297 Amended and Restated Tax Qualified Decommissioning Trust” agreement contingent upon the
298 Company obtaining corresponding approval from the MPSC.

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REQUEST FOR APPROVAL OF THE
“THIRD AMENDED AND RESTATED NON-TAX QUALIFIED
DECOMMISSIONING TRUST” AGREEMENT

Q. What document currently governs the non-tax qualified decommissioning trust?

305 A. The “Second Amended and Restated Non-Tax Qualified Decommissioning Trust” agreement
306 is presently in effect. A copy of this document is included in Schedule 5.

307 **Q. Has a revision to the “Second Amended and Restated Non-Tax Qualified**
308 **Decommissioning Trust” agreement been prepared?**

309 A. Yes. A copy of the proposed “Third Amended and Restated Non-Tax Qualified
310 Decommissioning Trust” agreement is included in Schedule 6.

311 **Q. What changes are incorporated in this document?**

312 A. The same changes that were made to the qualified decommissioning trust agreement as a result
313 of the NRC’s final rule for Decommissioning Trust Provisions, discussed earlier in this
314 testimony, are also required for the non-tax qualified decommissioning trust agreement. In
315 order to be consistent, the same changes being proposed for Articles II and III of the tax-
316 qualified trust agreement are likewise being proposed for the non-tax qualified trust agreement.

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318 In addition, Section 2.07 of the trust agreement was revised to make the Company
319 responsible for filing any required federal, state or local income tax returns, rather than the
320 trustee. This is appropriate as any income from the non-tax qualified trust would be included

321 as part of the Company's consolidated tax return, rather than a tax return filed as a separate
322 entity, as in the case of the tax-qualified trust.

323 **Q. Please provide an annotated copy of the proposed "Third Amended and Restated Non-**
324 **Tax Qualified Decommissioning Trust" agreement showing the wording that has been**
325 **deleted and added relative to the "Second Amended and Restated Non-Tax Qualified**
326 **Decommissioning Trust" agreement.**

327 A. Schedule 7 contains such a "comparative" document. "Strike-outs" illustrate text contained in
328 the "Second Amended and Restated Non-Tax Qualified Decommissioning Trust" agreement
329 that is being eliminated in the proposed "Third Amended and Restated Non-Tax Qualified
330 Decommissioning Trust" agreement. Shaded areas illustrate text that is not in the "Second
331 Amended and Restated Non-Tax Qualified Decommissioning Trust" agreement being added
332 to the proposed "Third Amended and Restated Non-Tax Qualified Decommissioning Trust"
333 agreement.

334 **Q. Are any trustee fee changes associated with the non-tax qualified trust agreement**
335 **changes requested by this filing?**

336 A. No. The "Schedule of Trustee Fees" included as Attachment 1 to the "Second Amended and
337 Restated Non-Tax Qualified Decommissioning Trust" agreement that were approved by the
338 ICC in Docket No. 00-0664 will remain in effect until at least January 1, 2004.

339 **Q. Are any other regulatory commission approvals required for this change in trustees?**

340 A. No. The non-tax qualified decommissioning trust was established and is maintained solely
341 to comply with Illinois law.

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REQUEST FOR APPROVAL OF CHANGES TO THE
“INVESTMENT GUIDELINES FOR THE CALLAWAY PLANT
TAX QUALIFIED AND NON-TAX QUALIFIED NUCLEAR
DECOMMISSIONING TRUST FUNDS – EFFECTIVE JANUARY 1, 2001”

Q. What investment guidelines are currently applicable to the trust fund’s assets?

A. The “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective January 1, 2001” are currently in effect. A copy of these guidelines are contained in Schedule 8.

Q. Please describe the manner in which the foregoing version of the investment guidelines was approved and implemented.

A. The “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective January 1, 1998” had been in effect prior to the Company’s filing a proposed revision in MPSC Case No. EO-2001-245 and ICC Docket No. 00-0664. In addition to general clarification and minor wording changes, the proposed revision included the addition of the following paragraph to Article V, Section B:

“UE shall monitor the actual equity allocation value, and shall direct the investment manager(s) regarding the appropriate actions to take to adjust the jurisdictional sub-account to maintain the targeted equity allocation, when necessary.”

The MPSC, in their Order in Case No. EO-2001-245, approved the proposed investment guidelines with one exception, that being the disallowance of the foregoing added paragraph.

As with the exceptions that were taken to the trust agreement revisions, the MPSC Order indicated that the foregoing exception would be “taken under advisement” until the resolution of the Company’s Illinois property transfer case (Case No. EM-2001-233) was resolved. Consequently, the Company incorporated all of the changes that had been approved by the

370 MPSC and ICC (but without the addition of the proposed paragraph to Article V, Section B)
371 and proceeded to implement the revised version as the “Investment Guidelines for the Callaway
372 Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective
373 January 1, 2001”.

374 **Q. Why did the MPSC take exception to this proposed paragraph addition to the**
375 **investment guidelines?**

376 A. This action was apparently in response to OPC concerns that the added paragraph would grant
377 the Company the ability to “inject itself improperly in the management of the trust”.

378 **Q. Does the Company agree with this position?**

379 A. No. As discussed earlier regarding the proposed trust agreement revisions, the Company does
380 not intend, nor does it consider it appropriate, to be involved in the specific, day-to-day
381 investment management of the trust fund’s assets. However, the Company feels very strongly
382 that it is within its fiduciary responsibility to establish and implement general, overall investment
383 policies and practices which investment managers (selected by the Company and approved by
384 the MPSC) will carry out in their managing of the fund’s assets. In fact, the Company
385 considers that it would be imprudent for it not to provide this broad, general oversight and
386 administrative management of the trust fund.

387 **Q. What is the Company proposing to reconcile this issue?**

388 A. The Company met with the MPSC and OPC Staff, and came to an agreement that the primary
389 concern the OPC had with the addition of the previously proposed paragraph was the fear that
390 the Company could begin directing the trustee to purchase specific securities; thus incurring
391 excessive risk. The Company never had any intention of doing this, so it was agreed that

language would be added to the generic “Investment Management Responsibility” section of the investment guidelines to more specifically delineate the Company’s role in the investment management process. Specifically, the Company is proposing to revise Article IV of the “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective January 1, 2001” to read as follows (added wording is underlined, deleted wording is stricken out):

~~“The trust funds shall utilize investment managers as selected by UE. UE shall not engage in the day-to-day management of the trust funds nor make individual investment decisions, as this is the responsibility of the investment managers. General investment policies are provided to the investment managers by UE through these investment guidelines. UE shall also determine the allocation of assets, including contributions and withdrawals, among investment managers.”~~

“Day-to-day management of the trust funds shall be the responsibility of investment managers selected by UE. Neither UE nor its subsidiaries, affiliates or associates may serve as investment manager or otherwise engage in day-to-day management of the fund or mandate individual investment decisions. The investment managers shall be responsible for the selection of specific securities to invest in. UE shall not direct any investment manager to invest in any specific, individual securities; however, UE does retain the right to instruct investment managers to not invest in certain securities, as it deems appropriate.”

“UE shall be responsible for establishing and implementing general, overall investment policies and practices; including, but not necessarily limited to:

- 1) The selection of trustees, investment managers, advisors, consultants, etc.;
- 2) The selection of allowable asset categories;
- 3) The specification of asset allocations between asset categories;
- 4) The specification of asset allocations between investment managers;
- 5) Directing contributions to selected asset categories / investment managers and directing reallocations between asset categories / investment managers.”

428 “The overall investment policies established by UE shall be set forth in these
429 written investment guidelines. These investment guidelines shall be reviewed
430 and approved, as required, by all applicable federal and state regulatory
431 authorities in accordance with all federal and state laws and with all orders
432 issued by such applicable federal or state regulatory authorities.”

434 “All instructions from UE to any other parties necessary to implement the
435 overall investment policies and practices established by these investment
436 guidelines shall likewise be in accordance with said guidelines and with all
437 federal and state laws and with all orders issued by applicable federal or state
438 regulatory authorities.”

440 **Q. Are any other changes being proposed specifically to the Illinois jurisdictional sections**
441 **of the investment guidelines?**

442 A. Yes. The Company is proposing the following minor change to Article V, Section C, as
443 follows (added wording is underlined, deleted wording is stricken out):

444 “UE shall monitor the actual equity allocation value, and shall direct the
445 investment manager(s) regarding the appropriate actions to take to adjust the
446 jurisdictional sub-account to fall within ~~maintain~~ the targeted equity allocation,
447 when necessary.”

448
449 **Q. Why is this minor change being proposed?**

450 A. There may be times when it would be prudent to hold less than the targeted equity allocation
451 ratio, such as the time period approaching license expiration and decommissioning. The
452 wording of the above paragraph, prior to the proposed change, seems to imply that the
453 Company would maintain the fund at its “targeted” equity allocation indefinitely.

454 **Q. Please provide a copy of the proposed “Investment Guidelines for the Callaway Plant**
455 **Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds –**
456 **Effective _____”.**

457 A. A complete copy of the proposed “Investment Guidelines for the Callaway Plant Tax Qualified
458 and Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective _____
459 ” is included as Schedule 9.

460 **Q. Please provide an annotated copy of the proposed “Investment Guidelines for the**
461 **Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust**
462 **Funds – Effective _____ ” showing the wording that has been deleted and**
463 **added relative to the “Investment Guidelines for the Callaway Plant Tax Qualified and**
464 **Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective January 1,**
465 **2001”.**

466 A. Schedule 10 contains such a “comparative” document. “Strike-outs” illustrate text contained
467 in the current “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax
468 Qualified Nuclear Decommissioning Trust Funds – Effective January 1, 2001” that are being
469 eliminated in the proposed “Investment Guidelines for the Callaway Plant Tax Qualified and
470 Non-Tax Qualified Nuclear Decommissioning Trust Funds – Effective _____”.
471 Shaded areas illustrate text that is not in the current investment guidelines but is added to the
472 proposed version.

473 **Q. Are any other regulatory commission approvals required for this revision to the**
474 **investment guidelines?**

475 A. Yes. The Company must also obtain the approval of the MPSC. Although the Company has
476 attempted to segregate the criteria contained in the investment guidelines by jurisdiction, the
477 change in Article IV proposed in this filing is generic to all of the jurisdictions. For that reason,
478 it is requested that the ICC make its approval of the proposed “Investment Guidelines for the

479 Callaway Plant Tax Qualified and Non-Tax Qualified Nuclear Decommissioning Trust Funds
480 – Effective _____” contingent upon the Company obtaining corresponding approval
481 from the MPSC.

482
483 **NOTIFICATION OF CHANGES IN THE NAME OF THE TRUST**
484 **FUND’S EQUITY INVESTMENT MANAGER**
485 **AS A RESULT OF RECENT MERGERS IN THE BANKING INDUSTRY**

486 **Q. Please describe the change in the equity investment manager’s name that has**
487 **occurred.**

488 A. Mississippi Valley Advisors (“MVA”), the original equity investment manager for the trust fund,
489 was added on July 10, 1992 as an additional investment manager for the trust fund. MVA was
490 a subsidiary of Mercantile Bank, which was subsequently acquired by Firststar. On February 29,
491 2000, MVA was merged into the Firststar investment management subsidiary with “Firststar
492 Investment Research & Management Company, LLC” (“FIRMCO”) as the surviving entity.
493 The investment management agreement and fee structure in place with MVA remained in place
494 under FIRMCO. Essentially, the change was in name only. The ICC was notified of this
495 change in my direct testimony submitted in connection with Docket No. 00-0664.

496 In February, 2001, Firststar Corporation merged with U.S. Bancorp, a bank holding
497 company. Consequently, FIRMCO became a wholly owned subsidiary of U.S. Bancorp.
498 U.S. Bancorp also owns “U.S. Bank National Association”, which owned “First American
499 Asset Management, Inc.” (“FAAM”). On May 1, 2001, FIRMCO and FAAM were
500 consolidated into a newly created organization, “U.S. Bancorp Piper Jaffray Asset
501 Management, Inc.” (“USBPIAM”), which is a wholly-owned subsidiary of U.S. Bank National

502 Association. The “Piper Jaffray” portion of the name was dropped in December, 2001, and
503 the title “U.S. Bancorp Asset Management, Inc.” (“USB”) was adopted. The investment
504 management agreement and fee structure originally in place with MVA continues to remain in
505 place under the surviving company, USB.

506 **Q. Is any ICC action required as a result of these changes?**

507 A. No. The Company is simply keeping the ICC informed of changes in the name of the fund’s
508 equity investment manager. The ICC Order in Docket No. 88-0301 requires the Company
509 to inform the Commission staff of any investment manager appointment or replacement;
510 however, ICC approval of such appointment or replacement is not required. Although the
511 foregoing is essentially just a change in name only for the investment manager, to avoid any
512 misunderstanding the Company is providing this formal notification to the ICC.

513
514

SUMMARY

515 **Q. Is there any affiliation of interest between Union Electric Company and BNY?**

516 A. No.

517 **Q. On what date does the Company desire to make the revised trust agreement and**
518 **investment guidelines effective?**

519 A. As the Company was able to proceed with the change in trustees through appointing BNY
520 as a successor trustee under the existing “Second Amended and Restated Tax Qualified
521 Decommissioning Trust” agreement, expedited treatment is not being requested for approval
522 of the documents presented in this filing. The Company, the trustee and the investment
523 managers will sign the revised trust agreements and investment guidelines, as appropriate,

524 and make them effective following receipt of the required approvals from both the ICC and
525 the MPSC. The trust agreement changes required by the NRC final rule for
526 Decommissioning Trust Provisions is required to be effective by December 24, 2003.
527 Consequently, although the Company is not seeking expedited treatment, ICC action is
528 requested within such a time frame so as to be able to meet this legal deadline.

529 **Q. In summary, what does the Company seek from the ICC?**

530 A. The Company is requesting that the ICC:

- 531 1) Approve the “Third Amended and Restated Tax Qualified Decommissioning Trust”
532 agreement between the Company and BNY, in the form of Schedule 3;
533 2) Approve the “Third Amended and Restated Non-Tax Qualified Decommissioning Trust”
534 agreement between the Company and BNY, in the form of Schedule 6; and
535 3) Approve the “Investment Guidelines for the Callaway Plant Tax Qualified and Non-Tax
536 Qualified Nuclear Decommissioning Trust Funds, Effective _____” (to be effective
537 as of the date the document is signed, following receipt of the ICC and MPSC approval);
538 in the form of Schedule 9.

539 **Q. Does this conclude your testimony?**

540 A. Yes, it does.